

Johnson County Performance Review

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The issues with government accounting in general and Johnson County in particular become readily apparent at first inspection of the county's budget(s). This is typically the point where the citizen taxpayer finds that discerning the where and how of the government's expenditure of their tax dollars is lost in the mode of presentation. Government accounting even when presented in a format that meets all the rules and requirements of financial statement presentation are less than helpful. However, Johnson County citizens would find themselves even more in the dark with a budget that does not even conform to one of most the basic precepts of financial statement presentation.

A fundamental and essential precept of statements such as annual financial statements and budgets is "comparability between periods." A taxpayer should be able to take previous years' budgets and compare it to the current budget. This allows taxpayers to see how changes have occurred over time and then 'drill down' to the detail that will account for those changes. Johnson County's budget presentation fails to meet the basic criteria of comparability. Even if you disregard the fundamental changes in format there are funds and departments who disappear from one year to the next with no clear explanation of why. The average citizen attempting to understand the county's budgeting of their tax dollars is left with far less than a complete picture. We have attempted to analyze the documents but even as professionals who deal in 'numbers' as a normal course of business we are left with questions that cannot be answered within the scope of the presentations that are available to the citizens of Johnson County. An attempt was made in Schedule A: Agency Revenue and Expense to condense this information into a multi-period format with some notes explaining some of the expenditure increases.

Our first recommendation to the citizens of Johnson County is to insist on a budget that allows true transparency by meeting the standard of comparability and/or if that is not possible due to things such as program changes they should provide a detailed explanation including a reconciliation of the changes. After some detailed examination it becomes clear these disappearances of 'agencies' from one year to the next are not because county government has been reduced in size or expenditures.

Chart 1 shows the phenomenal growth in revenues flowing to some of the agencies of Johnson County¹. Johnson County has experienced a population growth rate that exceeds the other major counties in Kansas, however many of these agency revenue growth rates exceed the population growth by substantial amounts. Many of these agencies may be justified in their need for increased revenue but taxpayers should be vigilant for growth in bureaucracies that may be unnecessary.

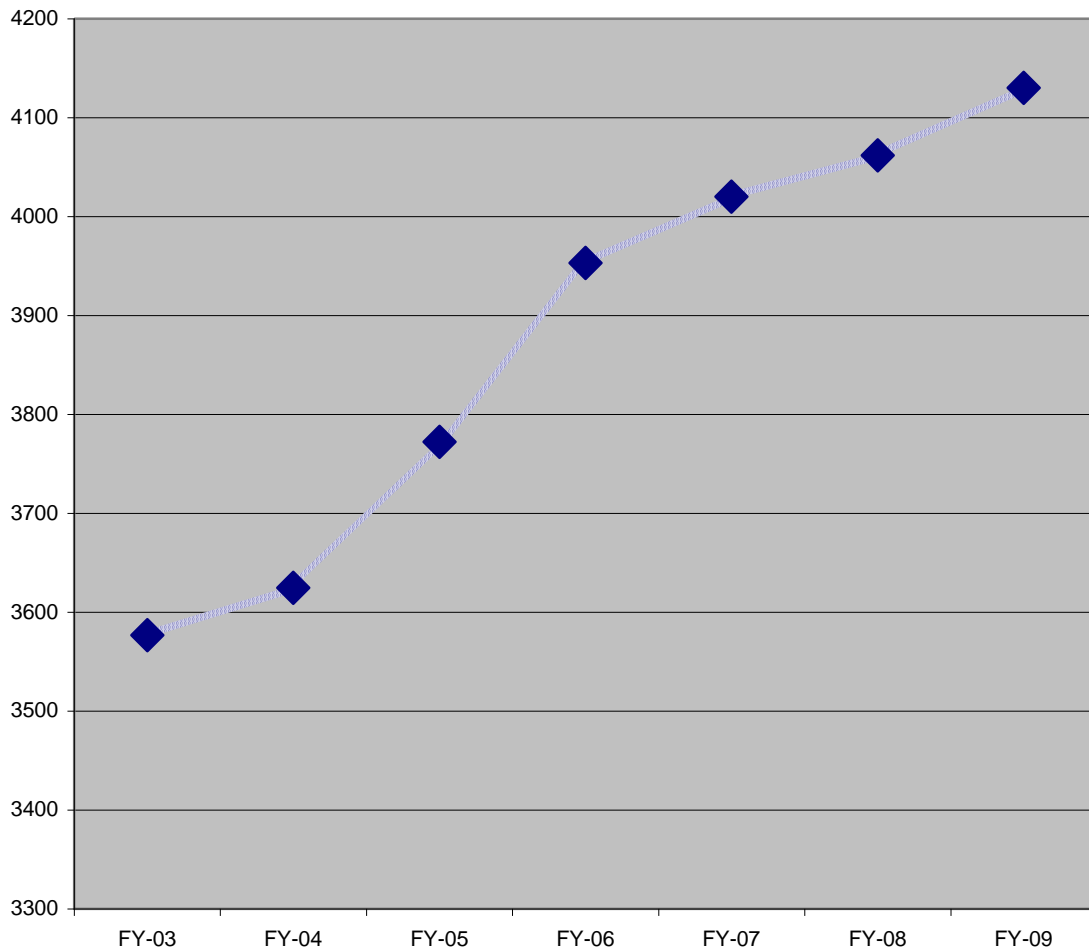
¹ Compilation of budgets from 2003 thru 2008 actual and 2009 estimated

Chart 1: Agency-by-Agency Revenue Growth

Agency	Growth FY-03 to FY-09	Agency	Growth FY-03 to FY-09
9-1-1 Wireless Telephone	696%	Law Library	69%
Sheriff Forfeited Property	573%	Wastewater SRCFP	63%
Treasurer	379%	Motor Vehicle	59%
Park & Recreation (General)	267%	Park & Recreation (Enterprise)	59%
Emergency Communications	260%	Human Services	56%
Facilities	258%	Environmental	52%
Budget & Financial Planning	254%	District Courts	47%
Countywide Support	249%	Sheriff's Office	46%
Transportation	181%	District Court Trustee	40%
Human Resources	177%	Alcohol Tax	40%
Risk Management	132%	Records & Tax Administration	37%
Park & Recreation Employee Benefits	112%	Wastewater O & M	32%
District Attorney	109%	Mental Health	23%
Library	90%	Developmental Supports	20%
Med-Act	83%	Automated Information Mapping Services (AIMS)	19%
Public Health	70%	Corrections	13%

A good example of this is the growth curve of full-time employees (FTEs) as shown in Chart 2. Growth in FTEs during periods of good times in government should always be cause for taxpayer concern. Each FTE carries with it a total cost that increases exponentially each year because of the underlying costs that are associated with these hiring's. Each FTE has FICA withholding requirements and employee benefits (including employer contribution to KPERs) that increase with every pay increase. These costs that are considered to be reoccurring annual costs are referred to as fixed costs because each year they are commitments to the next year's budget that are difficult — if not impossible — to eliminate during economic downturns requiring budget cuts.

Chart 2: Johnson County Total FTEs



Government employees often have annual raises based on seniority and Johnson County is no exception. Even in tough budget cycles they still tend to get scheduled raises which drive those underlying costs up compounding the cost of their base wages. Often this leads to laying off the last employees hired when a downturn in the economy occurs. It is always somewhat ironic that typically there is not a retention decision made based on cost/benefit since these are by far the lowest cost FTEs. The proposed FY-2010 budget shows exactly that trend with a slight reduction in total FTEs being proposed.

Agency heads will argue that during boom times they need to add additional FTEs to handle the workload. Experience has shown that seldom do part-time elected officials have the expertise or time to research whether there is adequate staff currently and/or if other avenues such as technology upgrades or contracting out services might address workload issues. One quick litmus test that elected officials should be encouraged to employ when faced with government expansion is the “Yellow Book test.” If the service is available in the yellow pages of your local phone directory, the government should

consider whether it is more economical to contract out those services to local businesses rather than take on the fixed costs of additional FTEs.

This approach has several advantages that protect the citizen taxpayer. The county can sever or re-negotiate contracts with private contractors during economic downturns such as we currently find ourselves in providing some budget stabilization ability without the firing of FTEs. Private business has always been more flexible and resilient in reacting to market forces and often will find savings in their products or processes that government entities have difficulty doing. Contracting out services during times of economic growth can be considered a type of 'hedge' against the inevitable downturn of the economic cycle.

An often overlooked advantage of the contractor versus FTEs is the risk management aspect. Properly written contracts with private businesses will provide the county with liability protection and the ability to pursue contractors for poor work and any damages that may result because of that work. Most contractors from CPAs to plumbers carry liability insurance and all carry their own workers compensation insurance. Transferring the management of risk to the insurance carriers of the private contractors is a great way to reduce costs while at the same time providing an avenue for the taxpayer to recover the damages done by defective work. Just as important is protecting the county from excessive workers compensation liabilities since the county is a self-insurer and has accrued significant liabilities. If a government FTE is providing the service there is typically no recourse, but in the same scenario a private contractor with liability insurance becomes a way for the taxpayer to recover at least their amount of expenditures if not damages. If one thinks that risk management is a tiny part of the cost of government they may want to think again. From FY-2003 to FY-2009 county expenditures grew an astonishing 77 percent from \$1,174,422 in FY-2003 to \$2,074,406 in FY-2009.

However, risk management is not the only overhead cost that is absorbed by private contractors. Technology costs are a reoccurring cost of many types of businesses. Software and hardware are in a constant cycle of replacement with becoming obsolete a constant threat to existing systems. It is not surprising the last bastion of mainframe systems is largely in government entities. Passing this risk and its underlying cost on to private contractors is the least understood of the 'hedges.'

Probably the most understood by citizens of the concept of private contracting approach is the competitive bid. It is well understood that if a contract is very profitable for a business they will strive to maintain it. This drives the quality of service up and if it doesn't then it stimulates other similar type businesses to enter the bid process. This cycle puts in place a cost control that is not present in government performing the service by hiring additional FTEs, and acquiring any software, hardware and/or equipment necessary for performing the duties.

There is an additional issue with the FTE counts of many of the agencies in the Johnson County budget. It appears that there may be budget padding that has been taking place in

the area of ‘budgeted but unfilled FTEs.’ When an FTE is budgeted for and funded but not filled is it really a necessary position? The question that should be asked of all agencies that operate through the budget year with actual FTEs being less than budgeted FTEs is ‘where did you spend the money?’ This is one of the standard ways bureaucrats will pad budgets so they have room for ‘cuts’ when economic downturns force austerity. Overall we found \$1,881,352 in ‘reductions’ by agencies that appeared to be vacant FTE positions used as ‘budget reductions.’ This was not the total but the rest were buried in composite accounts where we were unable to find the exact amount attributable to the FTE reduction. A good example of an agency in using this approach was corrections where the department submitted a FY-2010 budget reduction that used \$395,467 of cuts to vacant positions as the majority of its \$402,477 total of budget reductions.² The Corrections Department is by no means alone in using the vacant FTE area for budget cuts. Many agencies recorded the elimination of vacant FTEs either in the area of expenditure changes or FY-2010 budget reductions as a budget cut. This sort of budget padding should call into question management’s credibility when reviewing their expenditures and budget information. A vacant position that is open for more than six months has to be examined to determine its necessity.

Our firm looked at the revenues recorded in the budget documents for various years and attempted to reconcile between the individual reported agencies amounts and totals by revenue category. We found this extremely difficult not only with individual agencies but the amount in total was next to impossible for us to confirm by comparing agency budgets within the time allotted for this examination. The average citizen would have neither the expertise nor the time to be able to confirm the accuracy of reported revenues and/or expenditures. Simply trusting the Consolidate Annual Financial Report (CAFR) becomes problematic when you consider the conventional audits performed for the CAFR are not designed to detect waste and only marginally to detect fraud.

These issues on revenue reporting become much more problematic when you look at the performance audit of the Airport Management function.³ The audit “found the Airport lacked written internal policies and procedures to ensure internal controls were documented and maintained. The lack of internal procedures led to non-compliance.” This “non-compliance” led to poor cash receipts controls, violations of federal grant requirements, no physical inventory, and lack of oversight over use of county property which according to the auditor “put cash and other assets at risk for fraud, misuse, and abuse.”⁴

While this is a review of only one agency, the part of the audit that should cause the taxpayers of Johnson County to be concerned is the auditor’s statement that “Airport Management did not see the need for documentation of internal controls and business processes prior to our audit.”⁵ These controls and processes should be a ‘way of doing business’ across all county agencies and communicated from the top levels of

² <http://countybudget.jocogov.org/documents/FY2010%20Agency%20Budget%20Information.pdf> page 11

³ <http://audit.jocogov.org/2009%20Reports/Airport%20Management%20Final.pdf>

⁴ Ibid page 1

⁵ Ibid page 1

management on an on-going basis. From the perspective of looking at the county government at a system overview level this indictment of the Airport Management operations could be reflective of more troubling issues with management on a county-wide basis. According to their website the “Office of Financial Management (OFM) is responsible for the effective stewardship of public funds.”⁶ Not communicating and/or providing the training and systems to facilitate that function to the individual agencies is not being “responsible for the effective stewardship of public funds” by anyone’s definition.

Financial reporting has been a subject of much pride and more than one press release by the Office of Financial Management (OFM). The most recent was this item: “The Johnson County Office of Financial Management has kept its string intact as an annual recipient of a Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA) of the United States and Canada. It has received 21 national honors in as many years from the GFOA.”⁷ Before the citizens of Johnson County get too impressed lets note who and what the GFOA is. “The GFOA is a nonprofit professional association serving approximately 16,000 government finance professionals with offices in Chicago and Washington, D.C.”⁸ In other words this is simply bureaucrats giving awards to other bureaucrats. While that may be useful at some level the real end user of the county’s financial data should be the taxpayers and citizens. Not surprisingly the taxpayers and citizens of Johnson County are not mentioned anywhere in the agency’s goals and objectives. We would suggest the Johnson County OFM poll citizens on whether their budget and financial statement are easily understandable and useful in allowing citizens to value services and trace the expenditures of their tax dollars and adjust their presentation of financial data to reflect that feedback.

This issue of conflicting numbers off the various financial reports available to citizens leads to major issues for the Johnson County taxpayers. There is a limited amount of information available to the citizen and it is provided in a format that is not easily understood and may not be accurate. Simply putting budgets and financial statements online is not real transparency. The citizens need to demand that the revenues and expenditures of their county governmental units be put into a format that facilitates informed judgments about the services they receive and the expenditures of their tax dollars on those services. The average citizen would be perplexed to find that the revenues reported by the CAFR are different from the revenues reported in the budgets under the schedule showing revenues by category without explanation or a reconciliation statement. This difference may simply be the difference between the accrual method of accounting used on the CAFR and the cash basis method used on the budget document but there is no explanation or reconciliation that would allow a citizen to determine that on examination. With those differences being as much as \$65,931,231 in FY-2007 there is reason to wonder why such a reconciliation is not present in the budget numbers to satisfy the citizen that there budget and CAFR documents are in fact accurate on something as fundamental as overall revenues collected by the county.

⁶ <http://ofm.jocogov.org/>

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<http://ofm.jocogov.org/documents/Latest%20News/Acctng%20latest%20news/Johnson%20County%20Office%20of%20Financial%20Management%20adds%201st%20award%20from%20GFOA.pdf>

⁸ Ibid

Agency by Agency Comments:

Among the interesting items that appear as agency budget reductions for FY-2010 are travel and food expenses. Non-essential travel by government employees is often a 'perk' of the job that may or may not return any value to the department funding the travel. The large number of agencies and the dollar amounts of 'reduction' associated with travel in agency budget requests should be cause for future review and oversight over travel budgets. Although some of the agencies reported travel reductions in a format where we were unable to ascertain the exact amount within those that were readily available we found \$121,848 of travel reductions. Staff education is always an important part of employee development but alternatives exist such as online training that reduces or eliminates the need for out-of-office travel. Travel tends to add additional costs that are not recorded in the travel voucher in terms of requiring more time away from doing their day to day tasks than online or in-house instruction would require.

The travel expense that most jumps out in the budget requests is the incredible \$22,000 in travel listed as a reduction in expense in the FY-2010 Budget Reductions area for the Library Operating agency. One has a hard time understanding why librarians would need such a large travel budget. Online education, seminars and virtual conferences are widely available and if any single agency should be aware of and have the technology base for those applications this would be the agency. However, they should not be singled out as the only agency that seems to have 'excessive' travel. It is instructive that it is a budget cut item for many agencies which would imply that it was not necessary to the operations of the agency to begin with. This review recommends commissioners and taxpayers keep this in mind when better revenue times return and to limit these expenditures.

Agency food expenses also may be an area that needs investigation and continuing scrutiny. For example the Human Resources division lists \$8,000 in food for employee training under its list of FY-2010 Budget Reductions items.⁹ On first blush this seems not only rather high in amount of expenditures, but largely unnecessary. The agency should be examined to see why this expenditure was deemed appropriate for operations. These types of agencies are basically overhead for actual county operations and their costs are hidden from their impact on individual agency's costs under current accounting practices.

Reviewing the FY-2010 budget documents¹⁰ one finds a reoccurring theme of agencies reporting under the area of expenditure changes an increase that is reported as "the budgeted salary increase included in the budget parameters." For example the appraiser reports a budgeted increase in expenditures of 4.47 percent or \$253,428 for FY-2010 made up of a one time increase of \$9,300 for security for appeals and the rest being salary increases of \$244,128.¹¹ These budgeted salary increases are an affront to taxpayers in a period of economic duress. Common sense would suggest that government budgets should be adjusted to reflect economic realities. The suspension of those increases would not only hold salary expenses down but would have a similar effect on risk management payments, FICA payments and ancillary employee benefit payments thus providing a significant budgetary savings.

It is always interesting when one sees the fee-driven agencies approach to budgeting and this budget is no exception. For example the Contractor's Licensing function experienced a 21.36 percent increase of \$143,800 in revenues, and without batting an eye translated

⁹ <http://countybudget.jocogov.org/documents/FY2010%20Agency%20Budget%20Information.pdf> page 31

¹⁰ <http://countybudget.jocogov.org/documents/FY2010%20Agency%20Budget%20Information.pdf>

¹¹ <http://countybudget.jocogov.org/documents/FY2010%20Agency%20Budget%20Information.pdf> page 4

that into a expenditure increase of 21.36 percent, or \$143,800. This sort of budgeting is similar to a child's reasoning on their allowances where revenues in must equal expenditures out. Fee based agencies whose costs to business and consumers exceed the actual cost of providing those services are simply a back door tax. These back door taxes are passed on to consumers through the business paying the tax. One has to consider how much better served the community might be by reducing the licensing fee to reflect the increase in revenues.

The County Manager's office recorded a budget request reduction that included \$12,000 in travel and \$5,000 in memberships. Since there are only 12 FTEs, this is an area that really should have been investigated before the current budget cycle since it seems more than a little excessive in terms of expenditures per FTE.

A number of fund balances seem to be extraordinarily high and should possibly be subject to review and either reallocation or for reducing fees in those areas. For example the Developer Fees record an estimated fund balance for FY-2010 of \$228,175. This is in a fund with anticipated revenues and expenses of only \$9,800 for FY-2010. Similarly the 9-1-1 Telephone system has a reserve of \$2,142,820 for wired lines and \$1,029,883 for wireless systems.¹² Several other agencies also carried balances that exceed annual expenditures by significant amounts. When there are accumulations of large balances should always be reviewed and explained as to: 1) the need for the accumulation; 2) the estimate of dollars to satisfy the need; and 3) the approximate time that these funds will be expended to address the need. The accumulation of the public's dollars in marginally interest bearing accounts without sufficient justification is not an acceptable use of tax or fee dollars.

The Infrastructure/Public Works agency notes a savings of \$239,572 in savings from a reduction of 4.8 FTEs which amounts to nearly \$50,000 per FTE in salary and benefits. This seems fairly high for an average unless some of these positions are management but it also begs the question of if these are funded but vacant positions. If so, citizens should be asking how long these positions have been vacant and funded as this is a significant amount of money to be rolling forward each year.

They are not alone, as in the Med-Act agency the reduction of 1.5 vacant FTE positions is reported as saving \$222,350 in FY-2010 for an astonishing \$148,233 per FTE. We all understand that in this field that salaries are high, but this seems extraordinarily high. However, the more compelling budget question is how long these high-priced FTEs have been vacant and funded. If it has been for more than one budget cycle this is an excellent example of the bureaucratic use of funded but vacant FTEs as a budget padding mechanism.

It is interesting that the Office of Financial Management (OFM) also has a vacant FTE that is being used as a budget cut item. OFM may want to consider re-examining their pay rates as nearly \$80,000 for a Payroll Accounting Analyst Position seems

¹² <http://countybudget.jocogov.org/documents/FY2010%20Agency%20Budget%20Information.pdf> no page number listed—simply says summary

extraordinarily high for what is generally considered a staff position. Quite possibly this is one of those areas that Johnson County should consider outsourcing if this is any indication of the fixed labor costs that are being accrued. There are many fine payroll services and full spectrum accounting firms that may be able to completely replace the staffing, software and hardware technology costs of providing a simple function like payroll.

The Parks and Recreation agency budget gives some insight into the sort of overhead that comes with government FTEs. The agency reports an increase of \$149,589, or 3.69 percent, due simply to the annual salary increase requirement and the increases in health and other employee benefits. Limiting these sorts of increases in economic downturns is exactly why the government should seek outsourcing opportunities whenever possible.

The Museum fund is an example of an agency that the Commissioners should consider raising fees and/or lowering costs till it becomes self funded. While no doubt a worthy endeavor, it is questionable as a use of taxpayer dollars. An overview of their performance measures discover some that call into question the methodology and actual usefulness of the measures as well as the funding requirements. For example the Museum's annual audience served is reported as 97,792 from the last year actual numbers are available, but yet when determining the efficiency of the programs and services they use the total population of Johnson County of 546,731 as their evaluation number despite the fact it appears that in reality at least 448,939 residents were not served. And of the 97,792 there is an inclusion of those who were served through electronic services leaving some doubt about how many were unique visitors and not simply repeat customers. It was also interesting to note that in the relatively small sample of 136 polled visitors (13 percent) were not satisfied with their experience.

Often when you see government performance measures one has to wonder just what was really measured and how relevant it is. Since most if not all agencies submit their own performance measures they often are less than forthright. For example, the Oracle Support Center agency estimates that for 2009 the "estimated cost savings of completing internal V12 Upgrade vs. relying on outside consultants is \$100,000."¹³ Pretty impressive but when no basis is presented for comparison it is an extremely weak statement. This author has dealt with these sort of 'apples to avocado' costing comparisons at every level of government and almost without exception the government entity has ignored significant costs such as administration and other overhead costs that are recorded in other entities such as the payroll function of OFM. Often no capital asset depreciation or building costs are included as if the agency operates in 'thin air.' These are all costs that are attributable to the agency but are buried in other funds and budgets further reducing the transparency in expenditures. Citizens should view with some skepticism agency self appraisals of 'savings' when no data is presented to validate both the total inclusion of costs and the private sector benchmark. This agency estimation is particularly questionable when in the area of effectiveness measures the percent of technical requests solved for the last year actual numbers are available shows that a full 11 percent went

¹³ <http://countybudget.jocogov.org/documents/FY2010%20Agency%20Budget%20Information.pdf> no page number listed

unresolved. A private contractor with that sort of 'failure' rate could expect to be asked to resolve the issues or lose the contract to another bidder.

The author would like to note that there are many government services provided by Johnson County that are both efficient and much needed. This document is not an indictment of all services and employees by any means; however, the citizens and taxpayers of Johnson County are at a decided disadvantage in being able to sort the wheat from the chaff within the budget and financial documents that are available to them. This overview points to areas where the citizens should consider asking their county commissioners to investigate and when applicable reduce funding or enhance services with current funding for the various agencies and programs highlighted. Additionally, it should be noted that this research did not identify every area where citizen oversight should be focused and the author encourages citizens to ask questions and demand answers when they perceive shortfalls in services or waste in the use of their tax dollars.